War Economy, Military Keynesianism and Risk Countries

The thesis

Many countries are currently rearming on a large scale and building up their own defense industries. This creates a domestic economy that is state-dependent on military spending ("military Keynesianism"). The risk: just as Russia, due to its internal war economy, finds it economically difficult to stop the war in Ukraine, other countries could end up in a situation where an economic crisis — caused by this one-sided investment climate — structurally pushes them toward conflict. If this spirals out of control in one country, it could escalate into a broader (world) war.

What think tanks say about this

Recognition of the mechanism

- **CFR**: global defense spending has been rising for 11 consecutive years; in 2025 it surpassed 2.5% of global GDP — the highest level since 2009, while debt and inflation are already under pressure.
- **OECD**: the economic effect strongly depends on financing. Debt-financed defense spending can provide a short-term boost, but with high public debt it can instead push up interest rates and crowd out investment.

- **Historical parallel**: German rearmament before both world wars had real economic drivers alongside ideological ones — structural incentives that make conflict more likely as a byproduct.
- **SIPRI**: global military spending reached $2,887 billion in 2025 (11th consecutive year of growth); Russia's defense burden rose to 7.5% of GDP.

Critical caveats

- Economists (Skidelsky, Warwick analysis) point out there is no hard evidence that defense spending is a unique or superior economic stimulus compared to other government spending.
- IPS-Journal even calls "military Keynesianism" "a dead end economically and politically" — it increases fossil-fuel dependency and geopolitical risk.
- The idea that this *automatically* leads to one major triggering crisis and a world war is not seen as deterministic by most think tanks. Rather, it is a structural risk factor that increases the chance of escalation, not a mechanism that "forces" war.

Key conclusion (elaborated with figures)

The countries with the highest risk of the mechanism central to this analysis — a crisis arising from one-sided investment in a war economy, which then structurally forces conflict — are not necessarily the biggest spenders in dollar terms. It's about the combination of (a) a heavy burden relative to the economy and (b) already fragile economic fundamentals. Four cases stand out:

1. Poland and the Baltic states — new, rapid build-up

- **Poland**: 4.1–4.7% of GDP on defense, the highest percentage within NATO. This is not a peak but a structural course — the Polish central bank has even floated selling gold reserves (worth up to $13 billion) to finance a doubling of the defense budget.
- **Baltic states** (Estonia, Latvia, Lithuania): small economies, but with one of the highest defense burdens relative to GDP within NATO.
- **Mechanism**: relatively small economies structurally locking a large share of their budget into defense. In an economic downturn (recession, higher interest on public debt), scaling back is almost impossible politically and security-wise (direct border with Russia), while continuing further squeezes the rest of the budget. This is the most "classic" form of the risk: a newly created dependency not yet tested by a real crisis.

2. Turkey — chronic macro-fragility + growing burden

- Defense and security budget 2026: $27.3 billion (2.33% of GDP), rising to 2.83% (2027) and 3.2% (2028) according to the ministry's own projections.
- Fund supporting the domestic arms industry: +25% in 2025, now 22% of total defense spending.
- Inflation: structurally around 30–32%.
- Import dependency: 90% of oil and 98% of gas comes from abroad. During the energy shock from the US/Israel-Iran war (from February 28, 2026), the central bank sold/swapped 58–118 tonnes of gold (~$8+ billion) in two weeks to defend the lira.

- **Mechanism**: Turkey doesn't have a new, sudden dependency like Poland, but a chronically fragile macro-economy (high inflation, weak lira, import dependency) on top of which a structurally growing defense *and* security burden (military and police/gendarmerie are budgeted together) comes as an extra factor. Every external shock (energy, war elsewhere) hits Turkey twice: via the budget and via the balance of payments.

3. Algeria and Saudi Arabia — extremely high ratios, partly acutely worsened

- **Algeria**: ~8.8% of GDP on defense — one of the highest ratios in the world, with relatively little media attention.
- **Saudi Arabia**: $83.2 billion (2025), 6.5–8.8% of GDP, the world's 8th-largest defense budget. Since the closure of the Strait of Hormuz (March 4, 2026), oil exports have largely halted and air defense (Patriot PAC-3 missiles) has been consumed at record pace.
- Wider Gulf region: the blockade caused a "food and water emergency" — up to 80% of food imports and drinking-water desalination (up to 99% of water supply in some Gulf states) run through the same route that is now blocked.
- **Mechanism**: these countries combine an already very heavy structural defense burden with an acute, external shock (war threat at their border/waters) that directly hits both their income (oil exports) and their basic supplies (food, water). This is the sharpest example of how a regional war can push an already heavy war economy into an acute crisis.

Why these four groups are riskier than the big spenders

The US (>$1 trillion), China, and Germany spend far more in absolute figures, but their economies are large and diversified enough to carry that burden without it becoming an existential politico-economic trap. Poland/Baltic states, Turkey, and Algeria/Saudi Arabia combine a heavy burden with little economic buffer — and that is precisely the combination that, according to the think-tank analyses cited earlier (CFR, OECD, SIPRI), increases the chance that an economic crisis tips over into structural pressure toward conflict.

Complete global overview (all relevant countries/blocs)

The overview below covers all economically relevant countries, grouped by region and risk level. For completeness: for countries outside these groups (most of Africa, South America, Southeast Asia), defense is not a dominant economic factor — their spending is well below 2% of GDP and plays no role in the described mechanism.

Europe — high debt + growing defense burden

Country	Public debt (% GDP)	Defense spending (% GDP)	Risk
Greece	150.9%	~3%	Highest debt in the EU, fiscally fragile for a long time
Italy	135.3%	2.8% (2026)	Largest debt burden after Greece; increase mainly via reclassification to "security"
France	115.6%→120%	2.25% (€68.5bn)	Deficit 5.1%; defense is the only growing budget item, everything else shrinking
Belgium	104.5%	+59% in 1 year	Fastest increase in all of Europe
Spain	100.7%→99.3% (falling)	1.24–2.1% (lowest in NATO)	Refuses the 5% target; counterexample, not a risk country
UK	101.3%	rising	"Defense remains one of the biggest fiscal pressures"

Country	Public debt (% GDP)	Defense spending (% GDP)	Risk
			— Institute for Fiscal Studies
Portugal	94.9%	~2%	Limited fiscal room
Poland	lower, but growing fast	4.48% (highest in NATO)	Category 1: new, rapid build-up
Lithuania / Latvia / Estonia	varies	4.00% / 3.73% / 3.38%	Category 1: new, rapid build-up
Germany	63.9% (low)	2.14%→3.2% (2029)	Plenty of fiscal room; constitutional debt brake amended, no acute risk
Netherlands	moderate	2.2% (doubled since 2021)	Controlled, no acute risk

Middle East / Gulf — extremely high ratios, partly acute

Country	Defense spending (% GDP)	Risk
Ukraine	~40%	Full wartime mobilization

Country	Defense spending (% GDP)	Risk
Israel	6.5–7.8%	Permanent war economy + burdened by the Iran war
Saudi Arabia	6.5–8.8%	Acute strain from the closure of the Strait of Hormuz
Algeria	~8.8%	Highest ratio worldwide, little media attention
Iran	~2% GDP, but low GDP per capita	Sanctions + war limit economic buffer
Turkey	2.3%→3.2%	Category 4: chronic macro-fragility + growing burden

Eastern Europe / Russia

Country	Defense spending (% GDP)	Risk
Russia	7.5%	Original example: structural dependency on the war industry

Great powers with economic depth (lower risk in this respect)

Country	Defense spending	Risk
US	>$1 trillion, ~3.3–3.4% GDP	Largest absolute spending, but economy large enough to carry it
China	+7.2% growth, officially ~1.7% GDP (actual spending possibly higher)	Large, diversified economy
Japan, South Korea, Taiwan	rising from a low base	Healthy economies, no acute fiscal squeeze
India	growing, but on a very large/growing economy	Low relative risk

Rest of world (Africa, South America, Southeast Asia)

For most countries in these regions, defense doesn't play a dominant role in the economy (spending generally well under 2% of GDP). Exceptions with regional tension due to domestic conflicts (e.g. Pakistan, Egypt, Nigeria) fall outside the core war-economy dynamic central to this analysis, but are worth examining separately if there's specific interest.

In-depth risk analysis per country

Below is a breakdown per country from the tables: what makes the specific risk mechanism concrete there, and how heavily it weighs.

Europe

Greece (debt 150.9% GDP, defense ~3%)
The most debt-burdened country in the EU. The risk here is not so much a new defense build-up (which has been relatively stable for years, partly due to historical tension with Turkey), but that any new shock — interest rates, energy, a new euro crisis — immediately hits the fiscal ceiling. There's barely any buffer.

Italy (debt 135.3%, defense 2.8% in 2026)
Rome combines one of the heaviest debt burdens in Europe with political pressure to spend more on defense. Tellingly: most of the 2026 increase goes to "domestic security" (police) rather than classic defense — a sign that the Meloni government is trying to make the increase electorally sellable rather than actually building capacity. This is a country adopting the form of rearmament without the fiscal room for it.

France (debt 115.6%→120%, deficit 5.1%, defense 2.25%)
The clearest European example of the mechanism: defense is the only budget item structurally growing, while nearly every other ministry is cutting back. Two prime ministers have already fallen over budget disputes. If the political chaos continues or interest rates rise further, defense becomes the item the rest of the budget runs up against.

Belgium (debt 104.5%, defense +59% in 1 year)
The fastest increase in all of Europe, starting from a very low base. The risk is less the absolute burden (still relatively limited) and more the pace: a country with limited fiscal room nearly doubling its defense spending in a single year is building a new structural obligation at breakneck speed.

Spain (debt 100.7%→99.3%, defense 1.24–2.1%, lowest in NATO)
The clearest counterexample. Debt and deficit are falling, and the government explicitly refuses to go along with NATO's 5% target, citing economic harm as the reason. Spain demonstrates that a country *can* resist the pressure to rearm — the risk you're describing is deliberately avoided here, not absent by chance.

United Kingdom (debt 101.3%, defense rising)
The Institute for Fiscal Studies explicitly calls defense one of the biggest structural fiscal pressures for coming years. Like France and Italy, the UK belongs to the group of large economies that, according to Bruegel economist Guntram Wolff, "isn't managing" to meet NATO targets without significant fiscal pain elsewhere.

Portugal (debt 94.9%, defense ~2%)
Less in the news, but with limited fiscal headroom. Risk is similar to Greece: little room to absorb shocks, even if defense spending itself remains modest.

Poland (defense 4.48%, highest in NATO)
As elaborated earlier: the clearest "category 1" case. Rapid, structural build-up, small country relative to the burden, direct border with Russia making scaling back politically almost impossible.

Lithuania (4.00%), Latvia (3.73%), Estonia (3.38%)
All three combine a small economy with a very high relative burden and direct geographic exposure to Russia. The difference from Poland is scale, not mechanism — in an economic downturn, these countries have even less absolute buffer to fall back on.

Germany (debt 63.9%, defense 2.14%→3.2% in 2029)
Structurally the least vulnerable large European country in this respect. Low public debt provides plenty of room to raise defense spending via borrowing without acute fiscal risk — hence the amendment of the constitutional debt brake specifically for defense. No acute risk, though a country being transformed by the build-up.

Netherlands (defense 2.2%, doubled since 2021)
Moderate pace, healthy starting position. No acute risk as long as the broader economy remains stable.

Middle East / Gulf

Ukraine (~40% GDP)
Extreme outlier, but this is the *result* of war, not the cause — already in the "full war economy" category and not comparable to the other countries in terms of mechanism.

Israel (6.5–7.8%)
Permanent war economy in which parts of the tech and defense sectors are so intertwined with the broader economy that a lasting peace situation could also be economically disruptive for certain sectors. The current Iran war further increases the burden, though the trend before the war was actually slightly declining.

Saudi Arabia (6.5–8.8%)
The sharpest current example of how an already heavy defense burden can tip into an acute crisis: since the closure of the Strait of Hormuz, oil exports (the main source of income) have largely halted, while air defense is simultaneously being consumed at record pace. This is a country under pressure on both the income and expenditure sides at once.

Algeria (~8.8%)
The highest ratio worldwide, but with little international attention — partly because the country is less in the current geopolitical spotlight than Saudi Arabia or Israel. Structurally one of the most heavily burdened economies in the world in this respect, with little external scrutiny or transparency about how sustainable this is.

Iran (~2% GDP officially, but very low GDP per capita)
The percentage looks modest, but the economic base is exceptionally weak due to decades of sanctions. A small percentage of a small, sanctioned economy can still constitute a heavy burden — and the current war with the US/Israel is acutely increasing the pressure.

Turkey (2.3%→3.2%)
As elaborated earlier: not a sudden build-up like Poland, but a chronically fragile macro-economy (high inflation, weak lira, strong import dependency) on top of which a structurally growing defense *and* security burden comes.

Eastern Europe / Russia

Russia (7.5% GDP)
The original example your thesis was based on: an economy that has structurally come to run on the war industry, making it very disruptive economically to the domestic market and employment to stop the war.

Great powers with economic depth

United States (>$1 trillion, ~3.3–3.4% GDP)
By far the largest absolute spending in the world, but on an economy large and flexible enough to carry this without an existential fiscal squeeze. One point of note: public debt and

interest costs are also rising in the US, so this is no guarantee for the long term — but currently no acute risk comparable to the other categories.

China (officially ~1.7% GDP, +7.2% growth, actual spending possibly higher due to opaque accounting)
Large, diversified economy with a lot of absorption capacity. The risk here lies less in domestic economic pressure and more in the opacity of actual spending, which complicates external assessment of vulnerability.

Japan, South Korea, Taiwan
Rising spending, but from a low starting base and on healthy, prosperous economies. No acute fiscal squeeze, though a clear break with decades of modest defense spending.

India
Growing defense budget, but on one of the fastest-growing large economies in the world — the relative burden therefore remains manageable.

Rest of world (Africa, South America, Southeast Asia)

For most countries here, defense is not a dominant economic factor. Regional exceptions (Pakistan, Egypt, Nigeria) mainly relate to domestic conflicts and less to the structural "war economy trap" central to this analysis — it would require a separate, region-specific analysis to fully do justice to that.

Which countries are most vulnerable? (earlier, shorter version)

Category 1 — New, rapidly built dependency (risk of tipping over in a crisis)

Poland

- 4.1–4.5% of GDP on defense — the highest percentage within NATO.
- Structural course, not a temporary peak.
- Relatively small economy to carry the burden; large loans; real threat (border with Russia/Belarus).
- In an economic downturn, Poland is politically-economically stuck: scaling back feels existentially unsafe, continuing puts heavy pressure on the rest of the budget.

Baltic states (Estonia, Latvia, Lithuania)

- Defense burden relative to GDP is among the highest in NATO, despite modest absolute amounts.
- Small economy, large burden, direct border with Russia — similar vulnerability to Poland, even sharper.

Category 2 — Existing, entrenched war economy (chronic risk, no new crisis needed)

North Korea

- Extremely high (non-transparent) share of GDP on defense.
- "Songun"/military-first policy: decades built around a permanent war economy *without* actual war.
- Risk: external conflict as a diversionary tactic during internal crisis (food shortages, elite discontent), rather than "must suddenly go to war to avert collapse."

Israel

- Permanent war economy, defense industry strongly intertwined with the tech sector.

- Reduced spending in 2025 (SIPRI) — so not in an upward spiral like Poland.
- Structural risk: an economy that has long functioned with conflict as "normal" may find it politically harder to accept a lasting peace situation, because parts of the economy and political system benefit from the continuation of the threat.

The distinction

	Mechanism	Example countries
Category 1	New dependency, can tip over with economic headwinds	Poland, Baltic states
Category 2	Existing, entrenched war economy; the question is not *whether* but *when* internal pressure is released externally	North Korea, Israel

Risk analysis: probability of war and world war (2026–2046)

Important preliminary note: estimates of this kind are inherently very uncertain. There is no objectively "correct" probability of war — different methods (historical base rate, expert surveys, prediction markets) yield different figures, depending on how "war" and "world war" are defined. Below are the ranges from the best available sources, not one falsely precise number.

1. Probability of war "somewhere in the world" (2026–2046)

Nearly 100%. This isn't a meaningful uncertainty question: there is almost continuously an armed conflict going on somewhere (interstate or civil war). Correlates of War research and the Uppsala Conflict Data Program show that since 1945, there has been an active conflict somewhere every year. What *is* uncertain is the scale and type of conflict.

2. Probability of a great-power war or world war (2026–2046)

Source	Estimate	Period/definition
Metaculus (prediction market)	45%	"Great power war" before 2043
Metaculus	23%	"World War 3" before 2050
Atlantic Council survey (350+ strategists/futurists, 2025)	40%	World war before 2035 (multi-front conflict among great powers) — of whom 69% expect a direct clash between Russia and NATO
80,000 Hours (analysis of academic literature)	10–50%	Conflict between great powers "in the coming decades"
Tetlock's superforecasters (Hybrid Forecasting-	~2%	Nuclear war killing 10–100% of humanity,

Source	Estimate	Period/definition
Persuasion Tournament)		before 2050 (stricter, existential definition)
Historical base rate (Richardson model, Correlates of War)	~12%	Probability of a war the size of WWII (16.6+ million deaths) within 20 years, statistically extrapolated from 100+ years of data (implying an average of one such war per ~161 years)

Why the spread is so wide:

- Definitional differences: "great power war" (any clash between great powers, including regional/proxy), "world war" (multi-front, global), and "existential nuclear war" are three different things. The stricter the definition, the lower the percentage.
- Prediction markets like Metaculus have no financial incentive on this kind of long-term question, so the figures are treated with some caution.
- Expert surveys (Atlantic Council) measure the perception of well-informed professionals, not a hard model — the 40%/2035 outcome is itself called "alarming" by the researchers.

3. Synthesis based on the above sources and the country analysis in this document

Combined with the specific country risks above (Poland/Baltic states, Turkey, Russia, Saudi Arabia/Algeria, and the acute Iran war), here is a layered estimate for 2026–2046:

- **Regional/great-power war** (direct or via proxy, as is already partly the case with Ukraine and Iran): **25–40%** probability of escalation to a direct military confrontation between two or more great powers (e.g. Russia–NATO, US–China over Taiwan).
- **Full "world war"** (multi-front, multiple continents, comparable in scale to WWI/WWII): **10–20%**. Lower because global economic interconnectedness works both to escalate and to restrain, and nuclear weapons have formed a unique deterrent since 1945 that didn't exist before WWI/WWII.
- **Nuclear war with existential consequences** (10%+ of humanity): **~2–5%**, in line with Tetlock's superforecasters, specifically trained to correct for overconfident doom-thinking.

4. Connection to the country analysis in this document

The risk countries from the earlier sections (Poland/Baltic states, Russia, Turkey, Saudi Arabia/Algeria) are precisely the "flashpoints" named in the Atlantic Council survey as the most likely triggers: 69% of respondents who expect a world war name a direct Russia–NATO clash (directly affecting Poland/Baltic states) as the most likely scenario. The economic vulnerability described in this document therefore doesn't operate in isolation, but precisely in the regions experts already consider the highest-risk zones.

Caveat: these figures are estimates of uncertainty, not predictions. Even the most reputable sources themselves emphasize that long-term predictions about war are notoriously unreliable — major wars historically often arise

from events that were not seen as decisive beforehand (e.g. the assassination in Sarajevo, 1914).

Sources (additional)

- 80,000 Hours — *Great power conflict* problem profile
- Atlantic Council — *Welcome to 2035* Global Foresight survey (350+ experts)
- Metaculus — predictions "Great power war by 2043" and "World War 3 by 2050"
- Tetlock — Hybrid Forecasting-Persuasion Tournament (superforecasters)
- Richardson model / Correlates of War database — historical war frequency

Sources

- CFR — *Beware the Costs of the Global Rearmament Boom* (June 2026)
- Chatham House — *Global security continued to unravel in 2025* (December 2025)
- OECD Economic Outlook, Vol. 2026 Issue 1 — *The fiscal and economic impacts of higher defence spending*
- SIPRI — press release on global defense spending (April 2026)
- Wikipedia — *Military Keynesianism*
- Robert Skidelsky — *Military Keynesianism?* (June 2025)
- IPS-Journal — *Military Keynesianism is a dead end* (May 2025)

- Visual Capitalist — *Ranked: The World's 25 Most Militarized Economies*